

Message Text

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PAGE 01 BELGRA 08778 01 OF 02 120956Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 XMB-02 /023 W
-----016441 121001Z /20
P R 120830Z DEC 77
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC PRIORITY 4051
INFO USDOC WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 BELGRADE 8778

STATE PASS TO AMBASSADOR EAGLEBURGER AND TO EXIM; USDOC FOR SIPS

E.O. 11652: N/A
TAGS: EXIM, YO
SUBJECT: WESTINGHOUSE BID ON KOSTOLAC THERMO POWER PROJECT

SUMMARY. U.S. IS SLIGHT FRONT RUNNER. THREE COMMERCIAL
FACTORS GOVERNING YUGOSLAV DECISION ARE PRICE, FINANCING
AND COUNTER TRADE. WESTINGHOUSE WILL SEEK 60 MILLION
DOLLAR EXIM PRELIMINARY COMMITMENT VERY SOON. EMBASSY
BELIEVES WESTINGHOUSE CONTINUED COMPETITIVENESS WILL
DEPEND ON SATISFACTORY RESOLUTION SUPERGUARANTEE ISSUE.
END SUMMARY.

1. FIVE WESTINGHOUSE REPRESENTATIVES AND DIRECTOR
GENERAL OF PROGRESS, WESTINGHOUSE AGENT IN YUGOSLAVIA,
MADE DEC 7 CALL ON CHARGE TO DISCUSS PROSPECTS OF
WINNING KOSTOLAC BID. GROUP EMPHASIZED GREAT POSSIBILITIES
FOR WESTINGHOUSE IN YUGOSLAV ELECTRIC POWER GENERATION
MARKET AND MADE FOLLOWING COMMENTS ON KOSTOLAC PROJECT.

2. PROGRES REP, KOSTIC, BELIEVES THERE ARE THREE
COMMERICLA FACTORS WHICH WILL DETERMINE WHO WINS BID.
THESE ARE:

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PAGE 02 BELGRA 08778 01 OF 02 120956Z

A) PRICE - WESTINGHOUSE IS COMPETITIVE ALTHOUGH
COMPETITION IS STRONG.

B) FINANCING - THE COMPETITION IS TOUGH HERE. IN EFFECT
130-150 PERCENT FINANCING WILL BE REQUIRED BECAUSE, DUE
TO A LACK OF YUGOSLAV CAPITAL SOME OF THE LOCAL WORK WILL
HAVE TO BE FINANCED FROM THE OUTSIDE. THE EMBASSY CAN

PLAY A VERY IMPORTANT ROLE HERE BY FOCUSING EXIM ATTENTION ON THIS PROJECT. EMBASSY/EXIM SUPPORT IS ESSENTIAL AND, JUST AS IMPORTANT, THIS SUPPORT MUST BE TIMELY (I.E., RIGHT FROM THE BEGINNING). UNLESS WESTINGHOUSE IS SURE IT CAN GET PROPER SUPPORT FROM THE EMBASSY/EXIM IT SHOULD NOT "WASTE ITS TIME" ON THIS PROJECT.

C) COUNTER TRADE - SOME THOUGHT IS BEING GIVEN TO FORMING A WESTINGHOUSE JOINT VENTURE TRADING FIRM IN YUGOSLAVIA WHICH WOULD NOT ONLY HANDLE TRADE FOR WESTINGHOUSE DEALS BUT ALSO FOR OTHER FOREIGN FIRMS. KOSTIC EMPHASIZED THAT BECAUSE OF GOOD CURRENT U.S./YUGOSLAVE ECONOMIC/POLITICAL RELATIONS PROSPECTS ARE VERY FAVORABLE FOR U.S. FIRMS.

3. EXIM FINANCING - TO DATE WESTINGHOUSE HAS OBTAINED ONLY AN EXPRESSION OF INTEREST FROM EXIM ON THIS PROJECT. WESTINGHOUSE HAS NOW LEARNED THERE IS VERY GOOD POSSIBILITY YUGOSLAVS WILL BUY FROM WEST RATHER THAN FROM EAST AND THAT THE YUGOSLAV CUSTOMER (KOMBINAT KOSTOLAC) WILL HAVE ACCESS TO HARD CURRENCY. WESTINGHOUSE WILL REQUEST A LETTER OF PRELIMINARY COMMITMENT FROM EXIM FOR 60 MILLION DOLLARS, AS SOON AS GROUP RETURNS TO U.S. WESTINGHOUSE BELIEVES EXIM "BEST SHOT ON THE FIRST RUN" REQUIRED AND THAT OFFER SHOULD PROVIDE FOR 85 PERCENT FINANCING (COMBINATION DIRECT LOAN AND GUARANTEE) WITH LIMITED OFFICIAL USE

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PAGE 03 BELGRA 08778 01 OF 02 120956Z

GOOD INTEREST RATE. LETTER WILL BE REQUIRED BY EARLY/MID JANUARY LATEST.

4. COMPETITION - FRENCH AND JAPANESE ARE OTHER COMPETITORS BUT SWISS AND AUSTRIANS ALSO ACTIVE. WEST GERMANS ARE NOT TOO MUCH OF A THREAT BECAUSE OF HERMES PROBLEM WITH YUGOSLAVIA. MOST FINANCING IS IN THE 7.00 - 7.5 PERCENT RANGE WITH 10-12 YEARS REPAYMENT. NONE IS LONGER THAN 12 YEARS. MOST FINANCING IS IN THE 130 PERCENT RANGE (85 PERCENT GOVERNMENT EXPORT CREDIT PLUS 15 PERCENT COMMERCIAL BANK FINANCING AT 10-12 YEARS-FLOATING RATE, PLUS A FURTHER 30 PERCENT FOR LOCAL-COST FINANCING FROM COMMERCIAL BANKS FOR 7 YEARS-FLOATING RATE. KOSTIC EMPHASIZED THAT WESTINGHOUSE WAS NOW SLIGHT FRONT RUNNER ON PROJECT AND THAT WESTINGHOUSE ONLY HAD TO BE COMPETITIVE ON FINANCING (I.E., 7 - 7-1/2 PERCENT), NOT NECESSARILY THE LOWEST.

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PAGE 01 BELGRA 08778 02 OF 02 120936Z
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FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC PRIORITY 4052
INFO USDOC WASHDC

LIMITED OFFICIAL USE SECTION 2 OF 2 BELGRADE 8778

STATE PASS TO AMBASSADOR EAGLEBURGER AND TO EXIM; USDOC FOR SIPS

5. WESTINGHOUSE REPS URGED EMBASSY TO CONTACT EXIM REGARDING DETAILS OF CONVERSATIONS AND TO TRY TO ENCOURAGE QUICK AND ADEQUATE RESPONSE BY EXIM. CHARGE RESPONDED THAT EMBASSY WOULD CONTACT WASHINGTON BUT ALSO POINTED OUT UNRESOLVED SUPERGUARANTEE ISSUE. KOSTIC, WHO CLAIMS TO BE WELL TIED IN WITH YUGOSLAV OFFICIALS ON SUPER-GUARANTEE ISSUE, ADDED THAT A PRELIMINARY COMMITMENT LETTER WITH SUPERGUARANTEE QUALIFIER WOULD BE COUNTER-PRODUCTIVE. WESTINGHOUSE REPS NOTED THAT THE PRELIMINARY COMMITMENT LETTER NEED NOT MENTION SUPERGUARANTEE ISSUE, AS EVERY PRELIMINARY AGREEMENT CONTINGENT ON FUTURE APPROVAL EXIM BOARD.

6. DJERDAP II - WESTINGHOUSE INDICATED ALLIS-CHALMERS SUBMITTED BID ON THIS HYDROELECTRIC PROJECT (7-3/4 PERCENT - 15 YEARS). THEY ASSUMED A/C DID NOT MAKE THIS COMMITMENT WITHOUT EXIM PRELIMINARY COMMITMENT FIRST. IS THIS CORRECT?

7. EMBASSY COMMENT: WESTINGHOUSE/KOSTIC COMMENTS SEEM RESONABLE ALTHOUGH EXIM ISSUANCE OF PRELIMINARY COMMITMENT LETTER TO WESTINGHOUSE WITHOUT SUPERGUARANTEE QUALIFIER WOULD REALLY PUT PRESSURE ON EXIM AT
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PAGE 02 BELGRA 08778 02 OF 02 120936Z

SOME LATER DATE IF WESTINGHOUSE STILL FRONT RUNNER AND SUPERGUARANTEE ISSUE NOT RESOLVED. COMMERCIAL COSTS TO U.S. OF PROLONGATION OF SUPERGUARANTEE PROBLEM ARE NOW BEGINNING TO SHOW UP IN CONCRETE

TERMS. PLEASE KEEP US ADVISED ON EXIM DISCUSSIONS
WITH WESTINGHOUSE.
WORTZEL

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Disposition Approved on Date:
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